

## GOI Borrowing Calendar for April - September 2013 - Analysis and Market Implications

GOI issuance calendar for first half FY 14 was announced today. Details as follows:

- GOI will borrow INR 349,000 crores between April – September out of gross scheduled borrowing of INR 579,000 crores for the year. Thus, 60% of gross total will get borrowed in first half versus 66% done first half of last year (against final revised total borrowing number of INR 558,000 crores for FY13)
- Net borrowing is pegged at INR 274,265 crores (57% of total) versus INR 284,926 crores (61% of total) in the previous year. However, net borrowing of INR 152,249 crores in April – June is higher than corresponding number of INR 127,426 crores in April – June last year. This is because most bond maturities this year are in August – September period versus in April – May last year.
- Month wise distribution of gross and net borrowing as follows:

	Gross	Maturities	Net
April	45000		45000
May	75000	12751	62249
June	45000		45000
July	75000		75000
August	64000	11984	52016
September	45000	50000	(5000)

- Finance ministry sources indicate that between INR 12,000 – 20,000 crores of the borrowing will be in the form of inflation indexed bonds. The structure of these bonds is still being worked out. Additionally, the proposed bond switching (where GOI will buy shorter tenor bonds and issue longer tenor in order to manage future maturities) may be considered from mid – April.
- In terms of maturity distribution of the borrowing, the calendar has a heavier weight-age towards the long end (33% in >14 years) than the corresponding period last year (30%). This is also significantly higher than the long end supply over the past 6 months.

### Implications and Strategy

While the borrowing calendar looks positive in terms of lower gross supply for the first half, the net supply in the first quarter (April – June) is fairly substantial with May being a particularly heavy month. However, it must be remembered that liquidity conditions had triggered RBI OMOs worth INR 79,000 crores in April – June 2012. If a similar amount is forthcoming this year as well, then supply adjusted for OMOs may not be of too much concern during the first quarter. Having said that, net supply in July and August is also fairly large and will continue to offer a drag against otherwise bullish tailwinds that potential rate cuts from RBI may create. In duration terms, the calendar has a higher proportion at the long end when compared to previous years. . This should support continued steepening of the yield curve over the next few months.

Overall , while rate cut expectations will still keep the undertone bullish, given the commencement of a new auction calendar from April, performance of the gilt curve may turn somewhat sluggish in the near term when compared with 'front end' corporate bonds. Keeping this in mind, we have moved strategy from being overweight government bonds to being overweight front end corporate bonds (up to 5 years) in our bond funds. Once we judge that the so-called 'supply premium' is getting built into the market, we may look to re-enter government bonds.

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